

INFORMATICA CORP  
Form 10-Q  
May 08, 2009

---

Table of Contents

---

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-25871

INFORMATICA CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

77-0333710  
(I.R.S. Employer  
Identification No.)

100 Cardinal Way  
Redwood City, California 94063  
(Address of principal executive offices, including zip code)

(650) 385-5000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: INFORMATICA CORP - Form 10-Q

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of April 30, 2009, there were approximately 87,137,000 shares of the registrant's common stock outstanding.

---

---

---

INFORMATICA CORPORATION

Table of Contents

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements:</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008</u>	3
<u>Condensed Consolidated Statements of Income for the three months ended March 31, 2009 and 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 4. Controls and Procedures</u>	46
<u>PART II. OTHER INFORMATION</u>	47
<u>Item 1. Legal Proceedings</u>	47
<u>Item 1A. Risk Factors</u>	47
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
<u>Item 5. Other Events</u>	60
<u>Item 6. Exhibits</u>	61
<u>Signature</u>	62
<u>Exhibit Index</u>	63
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	

Table of Contents

## PART I: FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INFORMATICA CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

	March 31, 2009 (Unaudited)	December 31, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 123,349	\$ 179,874
Short-term investments	296,527	281,055
Accounts receivable, net of allowances of \$2,761 and \$2,558, respectively	65,921	87,492
Deferred tax assets	24,112	22,336
Prepaid expenses and other current assets	16,384	12,498
Total current assets	526,293	583,255
Property and equipment, net	8,469	9,063
Goodwill	234,505	219,063
Other intangible assets, net	51,877	35,529
Long-term deferred tax assets	10,682	7,294
Other assets	8,302	8,908
Total assets	\$ 840,128	\$ 863,112
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,221	\$ 7,376
Accrued liabilities	28,903	34,541
Accrued compensation and related expenses	24,668	29,365
Accrued facilities restructuring charges	20,151	19,529
Deferred revenues	121,469	120,892
Total current liabilities	200,412	211,703
Convertible senior notes	201,000	221,000
Accrued facilities restructuring charges, less current portion	41,866	44,939
Long-term deferred revenues	6,245	8,847
Long-term income taxes payable	21,200	20,668
Total liabilities	470,723	507,157
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	87	87
Additional paid-in capital	380,159	374,091
Accumulated other comprehensive loss	(7,418)	(3,741)
Accumulated deficit	(3,423)	(14,482)
Total stockholders' equity	369,405	355,955
Total liabilities and stockholders' equity	\$ 840,128	\$ 863,112

See accompanying notes to condensed consolidated financial statements.

Table of Contents

INFORMATICA CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
<b>Revenues:</b>		
License	\$ 44,059	\$ 44,209
Service	64,999	59,501
Total revenues	109,058	103,710
<b>Cost of revenues:</b>		
License	748	693
Service	18,472	19,785
Amortization of acquired technology	1,557	620
Total cost of revenues	20,777	21,098
Gross profit	88,281	82,612
<b>Operating expenses:</b>		
Research and development	18,183	17,724
Sales and marketing	41,438	42,787
General and administrative	10,806	8,369
Amortization of intangible assets	2,051	362
Facilities restructuring charges	809	947
Total operating expenses	73,287	70,189
Income from operations	14,994	12,423
Interest income	1,790	4,857
Interest expense	(1,671)	(1,802)
Other income, net	767	503
Income before provision for income taxes	15,880	15,981
Provision for income taxes	4,821	4,757
Net income	\$ 11,059	\$ 11,224
Basic net income per common share	\$ 0.13	\$ 0.13
Diluted net income per common share	\$ 0.12	\$ 0.12
Shares used in computing basic net income per common share	86,862	88,128
Shares used in computing diluted net income per common share	100,430	103,727

See accompanying notes to condensed consolidated financial statements.





Table of Contents

INFORMATICA CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
Operating activities:		
Net income	\$ 11,059	\$ 11,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,353	1,401
Gain on early extinguishment of debt	(337)	—
Share-based payments	4,199	4,114
Deferred income taxes	(1,469)	(188)
Tax benefits from stock option plans	672	2,961
Excess tax benefits from share-based payments	(397)	(2,335)
Amortization of intangible assets and acquired technology	3,608	982
Non-cash facilities restructuring charges	809	947
Other non-cash items	610	(652)
Changes in operating assets and liabilities:		
Accounts receivable	23,730	26,678
Prepaid expenses and other assets	(3,612)	(3,952)
Accounts payable and other current liabilities	(20,499)	(16,201)
Income taxes payable	665	435
Accrued facilities restructuring charges	(3,219)	(2,347)
Deferred revenues	(4,291)	5,979
Net cash provided by operating activities	12,881	29,046
Investing activities:		
Purchases of property and equipment	(577)	(1,071)
Purchases of investments	(146,227)	(60,054)
Payment of investment in equity interest	—	(3,000)
Maturities of investments	115,848	96,904
Sales of investments	14,097	27,216
Business acquisition, net of cash acquired	(32,976)	—
Net cash provided by (used in) investing activities	(49,835)	59,995
Financing activities:		
Net proceeds from issuance of common stock	6,967	13,757
Repurchases and retirement of common stock	(5,910)	(6,349)
Repurchases of convertible senior notes	(19,200)	—
Excess tax benefits from share-based payments	397	2,335
Net cash provided by (used in) financing activities	(17,746)	9,743
Effect of foreign exchange rate changes on cash and cash equivalents	(1,825)	2,256
Net increase (decrease) in cash and cash equivalents	(56,525)	101,040
Cash and cash equivalents at beginning of period	179,874	203,661
Cash and cash equivalents at end of period	\$ 123,349	\$ 304,701

See accompanying notes to condensed consolidated financial statements.



Table of Contents

INFORMATICA CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of Informatica Corporation (“Informatica,” or the “Company”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the financial statements include all adjustments necessary, which are of a normal and recurring nature for the fair presentation of the results of the interim periods presented. All of the amounts included in this Report related to the condensed consolidated financial statements and notes thereto as of and for the three months ended March 31, 2009 and 2008 are unaudited. The interim results presented are not necessarily indicative of results for any subsequent interim period, the year ending December 31, 2009, or any future period.

The preparation of the Company’s condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments, and assumptions. The Company believes that the estimates, judgments, and assumptions upon which it relies are reasonable based on information available at the time that these estimates, judgments, and assumptions were made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates and actual results, Informatica’s financial statements would be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also instances that management’s judgment in selecting an available alternative would not produce a materially different result.

These unaudited, condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2008 included in the Company’s Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements of the Company.

Revenue Recognition

The Company derives its revenues from software license fees, maintenance fees, and professional services, which consist of consulting and education services. The Company recognizes revenue in accordance with American Institute of Certified Public Accountants Statement of Position No. 97-2 (“SOP No. 97-2”), Software Revenue Recognition, as amended and modified by American Institute of Certified Public Accountants Statement of Position No. 98-9 (“SOP No. 98-9”), Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions, American Institute of Certified Public Accountants Statement of Position No. 81-1 (“SOP No. 81-1”), Accounting for Performance of Construction-type and Certain Production-type Contracts, the Securities and Exchange Commission’s Staff Accounting Bulletin No. 104 (“SAB No. 104”), Revenue Recognition, and other authoritative accounting literature.

Under SOP No. 97-2, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable.

Persuasive evidence of an arrangement exists. The Company determines that persuasive evidence of an arrangement exists when it has a written contract, signed by both the customer and the Company, and written purchase authorization.

Delivery has occurred. Software is considered delivered when title to the physical software media passes to the customer or, in the case of electronic delivery, when the customer has been provided with the access codes to download and operate the software.

Fee is fixed or determinable. The Company considers arrangements with extended payment terms not to be fixed or determinable. If the license fee in an arrangement is not fixed or determinable, revenue is recognized as payments become due. Revenue arrangements with resellers and distributors require evidence of sell-through, that is, persuasive evidence that the products have been sold to an identified end user. The Company's standard agreements do not contain product return rights.

Table of Contents

INFORMATICA CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Collection is probable. The Company assesses first the credit-worthiness and collectibility at a country level based on the country's overall economic climate and general business risk. Then, for the customers in the countries that are deemed credit-worthy, it assesses credit and collectibility based on their payment history and credit profile. When a customer is not deemed credit-worthy, revenue is recognized at the time that payment is received.

The Company also enters into OEM arrangements that provide for license fees based on inclusion of technology and/or products in the OEM's products. These arrangements provide for fixed and irrevocable royalty payments. The Company recognizes royalty payments as revenues based on the royalty report that it receives from the OEMs. In the case of OEMs with fixed royalty payments, revenue is recognized upon execution of the agreement, delivery of the software, and when all other criteria for revenue recognition have been met.

Multiple contracts with a single counterparty executed within close proximity of each other are evaluated to determine if the contracts should be combined and accounted for as a single arrangement. The Company recognizes revenues net of applicable sales taxes, financing charges absorbed by Informatica, and amounts retained by our resellers and distributors, if any.

The Company's software license arrangements include the following multiple elements: license fees from our core software products and/or product upgrades that are not part of post-contract services, maintenance fees, consulting, and/or education services. The Company uses the residual method to recognize license revenue when the license arrangement includes elements to be delivered at a future date and vendor-specific objective evidence ("VSOE") of fair value exists to allocate the fee to the undelivered elements of the arrangement. VSOE is based on the price charged when an element is sold separately. If VSOE does not exist for undelivered elements, all revenue is deferred and recognized as delivery occurs or when VSOE is established. Consulting services, if included as part of the software arrangement, generally do not require significant modification or customization of the software. If the software arrangement includes significant modification or customization of the software, software license revenue is recognized as the consulting services revenue is recognized.

The Company recognizes maintenance revenues, which consist of fees for ongoing support and product updates, ratably over the term of the contract, typically one year.

Consulting revenues are primarily related to implementation services and product configurations performed on a time-and-materials basis and, occasionally, on a fixed fee basis. Education services revenues are generated from classes offered at both Company and customer locations. Revenues from consulting and education services are recognized as the services are performed.

Deferred revenues include deferred license, maintenance, consulting, and education services revenues. For customers not deemed credit-worthy, the Company's practice is to net unpaid deferred revenue for that customer against the related receivable balance.

Fair Value Measurement of Financial Assets and Liabilities

Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157") establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

SFAS No. 157 allows the Company to measure the fair value of its financial assets and liabilities based on one or more of the three following valuation techniques:

Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost); and

Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

Table of Contents

INFORMATICA CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the fair value measurement classification of Informatica as of March 31, 2009 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	\$ 35,457	\$ 35,457	\$ —	—
Marketable securities (2)	303,522	—	303,522	—
Total money market funds and marketable securities	338,979	35,457	303,522	—
Investment in equity interest (4)	3,000	—	—	3,000
Total	\$ 341,979	\$ 35,457	\$ 303,522	\$ 3,000
Liabilities:				
Foreign currency derivatives (5)	\$ 396	\$ —	\$ 396	—
Convertible senior notes	200,246	200,246	—	—
Total	\$ 200,642	\$ 200,246	\$ 396	\$ —

The following table summarizes the fair value measurement classification of Informatica as of December 31, 2008 (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	\$ 25,542	\$ 25,542	\$ —	—
Marketable securities (2)	322,796	—	322,796	—
Total money market funds and marketable securities	348,338	25,542	322,796	—
Foreign currency derivatives (3)	155	—	155	—
Investment in equity interest (4)	3,000	—	—	3,000
Total	\$ 351,493			